

May 8, 2006

Dear xxxxxx:

We are sending this letter in connection with the April 4, 2006 hearing of the Senate Committee on Finance, "Filing Your Taxes: How Costly Is It?". Testimony at the hearing raised serious concerns about the accuracy and quality of returns produced by paid preparers at national tax preparation chains in our country. Accordingly, we are requesting that your company provide the information requested below.

For purposes of this inquiry, "company" includes any and all affiliated or unaffiliated parties as defined in IRC Regulation section 301.7216-3. The term "preparer" means (a) any person who is engaged in the business of preparing or assisting in preparing tax returns; (b) any person who is engaged in the business of providing auxiliary services in connection with the preparation of tax returns, including a person who develops software that is used to prepare or file a tax return and any authorized IRS e-file provider; (c) any person who is otherwise compensated for preparing, or assisting in preparing, a tax return for any other person; or (d) any individual who, as part of their duties of employment with company, performs services that assist in the preparation of, or assist in providing auxiliary services in connection with the preparation of, a tax return.

Business Model, Products Sold and Services Rendered

1. Please describe your company's business structure. Identify all affiliated and unaffiliated entities, each entity's line of business and where it is located. Provide your company's organization chart.
2. Are your tax preparation offices owned by the company or are they franchisees or licensees? If they are franchisees or licensees, explain the financial arrangements between them and the company, e.g., royalties or other payments.
3. Please provide copies of your financial statements and SEC reports for the last two years.
4. Please provide a breakdown of the company's gross revenues received during the last two years by source, e.g., from tax preparation, from non-tax products or services (refund anticipation loans (RALs), debit cards, etc. – broken down by type), from disclosure of information to third parties, from the sale of tax

software, etc. If you participate in the Free File Alliance, differentiate the Free File revenues from other revenues. Provide a complete and detailed list of each type of tax product and service, and non-tax product and service, provided by your company. Please provide the website addresses for all on-line products and services your company offers.

5. To what extent does your company offer RALs? Do you make use of the IRS Debt Indicator? How many RALs did you sell during filing seasons 2004 and 2005? What is the total dollar amount of RALs issued? How many bad debts resulted from these RALs (number of debts and dollar amount)?
6. Does your company offer audit insurance? Provide the audit insurance policy and other materials given to the customer describing the coverage being purchased. How many audit insurance policies have been sold by your company since January 1, 2004?
7. How many total claims related to audit insurance have been filed since January 1, 2004? How many settlements of these claims have been reached and what was the cumulative dollar amount of the settlements made? Does your company self-insure? Or, does it purchase reinsurance from another company? Provide details of your insurance arrangements.
8. How many federal, state and local tax returns and other tax documents did your company prepare in 2004 and 2005, by type of return or document? How many of these were electronically filed? Are Electronic Return Originators (EROs) located at all of your locations?
9. To the extent you are aware, how many returns prepared by your company have been audited by the IRS since January 1, 2004? How many total audits did personnel from your company attend or otherwise provide assistance to taxpayers? What is the company policy regarding representation for audits (does your company represent only clients for which you prepared the return or for anybody upon request)? Of the returns that your company prepared and for which your company provided representation, provide a breakdown by return of the tax, interest and penalties assessed, whether the return was covered by audit insurance, and how much of the tax, interest, and penalties your company paid. Are the penalty payments deducted on your company's tax returns?
10. To what extent does your company provide tax services other than tax preparation, for example, offers in compromise? Provide a complete list of these additional tax services and how many of each service your company provided during 2004 and 2005, together with the revenues derived from each activity.
11. Describe your company's policy concerning fees charged to taxpayers. How much discretion is given to each preparer in setting the fee that is charged? Explain why fees charged may differ from the fees quoted to the customer before

the return is prepared. How do you make sure taxpayers are not charged for unneeded forms? If one of your preparers makes a mistake and the return needs to be refiled, is the client charged an additional fee? Please explain. Explain your company's policy on giving company credit toward a taxpayer's next purchase of company goods or services.

Training and Qualification of Tax Preparers

12. What are the qualifications to be hired by your company to prepare tax returns? Please provide an employment application. On average, how many years of tax experience do your preparers have?
13. Describe the training individuals receive before they are permitted to prepare tax returns, including: (a) classroom; (b) on-the-job; (c) hours of each type of training; and (d) testing criteria and scores. Provide information to describe the curriculum, a package of the most recent training materials and copies of the tests that are administered. If tests are administered by your company, what is the passing score? What is the company policy regarding retesting?
14. Using the criteria included in the preceding question, describe the continuing education or refresher training preparers receive during the course of the filing season or at the beginning of each new filing season. Provide a package of the training materials.
15. To what extent should all preparers be subject to training and certification requirements before they are allowed to prepare tax returns?

Employment Relationship, Compensation and Location of Tax Preparers

16. How many retail locations does your company have? What is the cumulative number of tax preparers who work at these locations? How many of your company's preparers are (a) attorneys, (b) certified public accountants, (c) enrolled agents or (d) unenrolled preparers? How many preparers are (a) full time, year round; (b) full time, seasonal; (c) part time, year round; or (d) part time, seasonal?
17. Are any of your company's preparers located in a foreign country? If so, identify the country (ies) and the respective number of preparers in those locations. Does your company notify taxpayers or receive written consent from taxpayers before sending tax return information out of the United States? What controls are maintained over the information that leaves the country? How many returns were prepared in a foreign country? What was the total cost of the foreign preparation to your company? What was the revenue generated for your company from these returns? How does the foreign profit rate per return compare to the profit rate per return generated within the United States?

18. Are your company's preparers treated as employees or outside contractors? If they are considered outside contractors, explain your rationale for doing so.
19. What is the structure of your company's compensation and bonus policies? Please be specific, including the rates or percentages of each type of compensation listed: (a) salary; (b) hourly; (c) per return; (d) bonuses; (e) refunds generated; (f) non-tax products sold; (g) other; and (h) combination of any of the above.

Monitoring Quality Control

20. Provide all informational material that is provided to taxpayers explaining your company's products and services (both tax and non-tax), fees, guarantees and policies. Provide a package of training materials, including but not limited to, manuals or other written procedures describing verbal explanations and instructions that must be provided to each taxpayer.
21. Describe your company's procedures to monitor the accuracy and quality of the returns being prepared in each of your offices. Describe your company's procedures to monitor the professionalism, due diligence and ethics of your preparers. How does your company measure and maintain consistency of accuracy, quality, professionalism, due diligence and ethics among all of your offices? How many preparers were disciplined during 2004 and 2005? Who administers the discipline? What disciplinary actions were taken against the preparers? Provide manuals or other written materials describing your disciplinary practices.
22. How does your company monitor whether preparers are asking all required due diligence questions and accurately applying the uniform definition of a child for purposes of the earned income and child tax credits? Explain your company's policy and procedures regarding probes for additional income or deductions and provide manuals or other written descriptions of them.
23. Does your company maintain standards of personal tax compliance for your preparers? Provide training materials or other information explaining these standards. How do you enforce these standards? What actions are taken when your company becomes aware a preparer is not in compliance with the tax laws for his/her personal tax matters? Provide the number of such actions taken during 2004 and 2005 and describe the noncompliance in each case.
24. Have any of your preparers been disciplined by applicable state authorities? By the IRS Office of Professional Responsibility? Provide details of the reasons for all disciplinary actions and the results of those actions.

25. How many penalties have been asserted on your preparers and your company by the IRS since January 1, 2004? Provide details, including the type of penalty, the reason the penalty was asserted, and the dollar amount of each penalty. In addition, provide details about any penalties pending.

Electronic Filing and Participation in the Free File Alliance

26. Does your company sell tax preparation software in addition to offering tax preparation services? Describe the purpose of the software. What is the brand name? What was the retail price of your software for the 2004 and 2005 filing seasons? Is there an additional charge to electronically file a return that was completed using the tax preparation software? If so, what was the price charged during the 2004 and 2005 filing seasons?
27. Is your company a member of the Free File Alliance? If so, please provide the following data: (a) identify the name of your Free File service accessible through the IRS website; (b) how many returns were filed through this service during the 2004 and 2005 filing seasons (2003 and 2004 returns); (c) what are the income and age and other criteria to qualify to use this service; (d) list the forms available without cost in your Free File program; (e) list all products, including tax related and non-tax related, that are available for a cost through your Free File program (specify the costs for each, and, if not obvious, describe the product); (f) the number of taxpayers who purchased non-tax products through your Free File service; and (g) whether your company offers Free File in any of the states, and, if so, identify the states; if not, please explain your policy.
28. If you are a member of the Free File Alliance, or sell tax preparation software, is taxpayer data retained in the memory of the browser, i.e., is a "cookie" created? Is the cookie used to contact taxpayers about non-tax products or services?

Disclosure of Taxpayer Return Information

29. What is your policy concerning the use or disclosure of tax return information? Provide manuals or other written documentation of this policy. How do you monitor whether your preparers are complying with this policy? What action is taken when they do not comply?
30. Describe the process you use to obtain consent from a taxpayer to use or disclose tax return information – if applicable, distinguish between paper and electronic return procedures. Provide samples of all consent forms or screens used by your company.
31. Do you consider data that has been input into the preparation software, but not sent to the IRS, taxpayer information? Do you use or disclose that data without the taxpayer's consent?

32. Please provide comments on the proposed IRS regulations concerning the use or disclosure of tax return information.

Legal Proceedings

33. Please list any and all litigation in which your company has been or is involved from January 1, 2000 through the present. Describe the charges and the status of each case. Provide details of all settlements reached during this period.
34. Have any injunctions been filed against your company or your preparers since January 1, 2004? If so, list them and describe the actions that led to the injunctions.

For more details, you may read the testimony and view the hearing at <http://finance.senate.gov/sitepages/hearings.htm>. If you have any questions regarding this inquiry, please contact [staff names and numbers redacted]. We would appreciate receipt of your response by May 22, 2006.

Sincerely,

Charles Grassley
Chairman

Max Baucus
Ranking Member